

CASTLE VALLEY SPECIAL SERVICE DISTRICT

(A COMPONENT UNIT OF EMERY COUNTY)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005**

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(A COMPONENT UNIT OF EMERY COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Castle Valley Special Service District
Castle Dale, Utah 84513

We have audited the accompanying financial statements of governmental activities and each major fund of Castle Valley Special Service District (a component unit of Emery County) as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

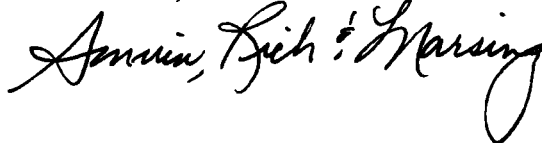
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and each major fund and remaining information of Castle Valley Special Service District as of December 31, 2005 and the respective changes in financial position where applicable, thereof and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 10, 2006 on our consideration of Castle Valley Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name.

Price, Utah

March 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Castle Valley Special Service District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2005. This report is in conjunction with the District's financial statements, which are a part of this report.

The stated purpose of the District is to provide drinking water, irrigation water, sewer, drainage and transportation services to eight communities in Western Emery County (Elmo, Cleveland, Huntington, Castle Dale, Orangeville, Clawson, Ferron and Emery). The District provides management, manpower, property and equipment for the operation and maintenance of these systems. The District also provides, technical advice and funding sources for the construction of new systems and facilities.

FINANCIAL HIGHLIGHTS

- The District's total revenue increased by \$143,845 over 2004. This was mostly due to an increase in water and sewer rates put into effect in 2004, increases in Mineral Lease revenue, and one time contracts entered into with two private coal companies and one energy development company.
- The District's net assets decreased by \$185,971 approximately 1.3%, as a result of this year's operation.
- During the year, the District had expenses that were \$185,971 more than the \$4,149,790 generated in taxes, other revenue, and bond proceeds.
- The total expenses as reported on all governmental funds, of \$4,335,781 was \$590,322 more than in 2004, which was caused by increased spending for capital improvements.
- The general fund reported excess this year of \$293,760. This compares favorable to a deficit of \$276,794 in 2002 and 2001's deficit of \$56,033.
- General-purpose property tax revenue decreased by \$141,362 compared to 2004. The decrease is due to lower evaluation for state assessed properties.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 through 13) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 14. These statements tell how these services were financed in the short term as well as what remains for future spending.

REPORTING THE DISTRICT AS A WHOLE

The District realizes revenue from four main sources; property tax, charges for services, mineral lease revenue and interest earnings. These funds are used to purchase equipment, labor expenses, and other operation expenses used for the operation and maintenance of the Districts facilities. The District is involved in an extensive construction program. It has issued General Obligation Bonds and received a PCIFB grant for funding of the construction. The main items constructed in 2005 included new wastewater treatment lagoons in Ferron, streets, curb and gutter, and storm drains throughout the eight communities.

Our analysis of the District as a whole begins on page 11. The Statement of Net Assets and the Statement of Activities report information about the District as whole and about its activities in a way that helps determine if the District is better or worse off as a result of this year's activities.

These two statements report the District's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increase or decreases in the District's net asset are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the District's property tax base and the condition of the Districts sewer plants, water plants and etc., to assess the over all health of the District.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

All of the District's services are reported in government funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method call *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The government fund statements provide a detailed *short-term* view of the District's general government operation and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The District has three fund groups. They are the General, Capital Projects, and Debt Service Funds.

The District does charge the Cities for some of the services it provides. However, most of the funding for these services is provided through a property tax. The District Board determined several years ago that since most of revenue is generated in property taxes, the proper fund classification for the District was governmental funds rather than proprietary funds according to accounting standards.

THE DISTRICT AS A WHOLE

The net assets of the District decreased by \$185,971. The following analysis focuses on the net assets (table 1) and changes in net assets (table 2) of the District's governmental activities.

THE DISTRICT AS A WHOLE (Continued)

Table 1
Net Assets

| | Governmental Activities 2004 | Governmental Activities 2005 |
|--|------------------------------------|------------------------------------|
| Current and other assets | \$ 4,100,753 | \$ 2,926,520 |
| Capital assets, net | 17,816,384 | 19,164,656 |
| Bond Issuance costs, net | 28,846 | 35,541 |
| Bond discount, net | 16,334 | 14,001 |
| Total assets | \$ 21,962,317 | \$ 22,140,718 |
| Long-term debt outstanding | \$ 6,585,967 | \$ 6,781,901 |
| Other liabilities | 1,054,733 | 1,223,171 |
| Total liabilities | \$ 7,640,700 | \$ 8,005,072 |
| Net assets: | | |
| Investment in capital assets, net of debt | \$ 10,262,750 | \$ 11,289,056 |
| Restricted for: | | |
| General fund-water plant | 48,388 | 57,831 |
| Capital projects fund | 2,163,935 | 551,004 |
| Debt Service fund | 1,044,078 | 1,178,415 |
| Unrestricted | 802,466 | 1,059,340 |
| Total net assets | \$ 14,321,617 | \$ 14,135,646 |

Net assets of the District are \$14,135,646. The Unrestricted Net Assets- the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$1,059,340.

This is the District's fourth year of implementing GASB 34 reporting requirements. The District decrease of \$0.19 million in net assets does indicate, however, that the District is basically in the same financial position as it was in previous years.

THE DISTRICT AS A WHOLE (Continued)

Table 2
Change in Net Assets

| | Governmental Activities 2004 | Governmental Activities 2005 |
|----------------------------------|------------------------------------|------------------------------------|
| Revenues | | |
| Program Revenues: | | |
| Charges for services | \$ 401,539 | \$ 576,533 |
| Capital grants and contributions | 672,262 | 531,932 |
| General Revenues: | | |
| Property taxes | 2,264,056 | 2,122,694 |
| Grants and contributions | 511,726 | 533,076 |
| Contributions from other govt's | 85,000 | |
| Other general revenues | 71,362 | 385,555 |
| Total revenues | <u>\$ 4,005,945</u> | <u>\$ 4,149,790</u> |
| Program expenses: | | |
| General government | \$ 253,469 | \$ 275,101 |
| Public works | 3,325,307 | 3,893,547 |
| Interest on long-term debt | 166,663 | 167,113 |
| Total expenses | <u>\$ 3,745,439</u> | <u>\$ 4,335,761</u> |
| Change in net assets | <u>\$ 260,506</u> | <u>\$ (185,971)</u> |
| Net assets-beginning | \$ 14,061,111 | \$ 14,321,617 |
| Net assets-ending | <u>14,321,617</u> | <u>14,135,646</u> |
| | <u>\$ 260,506</u> | <u>\$ (185,971)</u> |

GOVERNMENTAL ACTIVITIES

Table 3 presents the District's net cost (total cost less program revenue generated by activities). The net cost for all governmental Activity was \$2,995,904 as shown in the Statement of Activities. The amount that our taxpayers ultimately financed for these activities through property taxes was \$2,122,694 (\$141,362 less than 2004 property taxes). This points out that our District relies heavily upon property taxes to finance its operations. Grants and contributions provided the substantial amount of \$533,076 to our finances in 2005.

The total cost of services exceeded the program revenue. However, this was anticipated due to the schedule of construction for some of our capital improvement projects.

Table 3
Governmental Activities

| | Total Cost of Services 2005 | Program Revenue 2005 | Net Cost of Services 2005 |
|----------------------------|-----------------------------------|----------------------------|---------------------------------|
| Primary government | | | |
| Governmental activities: | | | |
| General government | \$ 275,101 | | \$ (275,101) |
| Public works | 3,893,547 | \$ 1,339,857 | (2,553,690) |
| Interest on long-term debt | 167,113 | | (167,113) |
| | <u>\$ 4,335,761</u> | <u>\$ 1,339,857</u> | <u>\$(2,995,904)</u> |

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District's Budget was revised one time. The actual expenditures were \$13,652 below the budget amounts. The higher increase in fuel costs, pipe costs and concrete costs made budgeting difficult for the year. There were two significant variances in revenue accounts between the original and final budget of the general fund. These variances were in mineral lease revenue and miscellaneous revenue and were the results of increased gas well production and sale of material and reimbursement for labor costs. The corresponding changes in expenditures were a result of increased prices of fuel and materials.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the District had \$19.2 million in a broad range of capital assets, including water, culinary water, and sewer and storm drainage facilities in the eight communities that we serve. (See table 4 below)

Table 4
Capital Assets at Year-end
(Net of Depreciation)

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|----------------------|
| | <u>2004</u> | <u>2005</u> |
| Land and easements | \$ 218,683 | \$ 218,683 |
| Construction in Process | 753,618 | |
| Buildings | 32,710 | 31,042 |
| Machinery and equipment | 374,674 | 482,231 |
| Improvements other than buildings | <u>16,436,999</u> | <u>18,432,700</u> |
| Total | <u>\$ 17,816,684</u> | <u>\$ 19,164,656</u> |

This year's major additions included:

| | |
|--|---------------------|
| Ferron lagoon project (paid with bond and grant proceeds) | \$ 685,087 |
| Irrigation projects (paid with bond and grant proceeds) | 57,093 |
| Drainage projects (paid with bond and grant proceeds) | 454,221 |
| Purchase of four Chevy Trucks (paid with bond and grant proceeds) | 78,623 |
| Purchase of Tymco Street Sweeper (paid with lease and grant proceeds) | <u>117,865</u> |
| Total | <u>\$ 1,392,889</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

The Districts 2006 budget calls for it to spend approximately \$3.4 million for capital projects, principally for streets, curb and gutter and storm drains in all of the communities.

Debt

At the year-end, the District had \$7.77 million in General Obligation Bonds outstanding versus \$7.43 million last year, as shown in table 5.

Table 5
Outstanding Debt at Year-end
2005

| | Govenemental Activities | |
|--------------|-------------------------|---------------------|
| | 2004 | 2005 |
| Bond payable | \$ 7,216,300 | \$ 7,547,300 |
| Bond payable | <u>210,000</u> | <u>227,603</u> |
| Total | <u>\$ 7,426,300</u> | <u>\$ 7,774,903</u> |

One General Obligation Bond was issued in 2005. It was in the amount of \$1,200,000. The purpose of the bond is for construction of streets, curb and gutter and storm drains in the eight communities.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District relies heavily on property taxes to finance its operations. The Districts general property tax values have been decreasing for the past several years. The decrease is attributed to a general decline in the tax values of the State Assessed properties within the District. However, the District management took aggressive action in 2001 to obtain voter approval for a tax rate increase in the General Fund from 0.000800 to 0.001000. This was the first increase in 16 years. This new tax rate increase took effect in 2002, and had the desired effect of increasing the general property tax revenue in 2002 and again in 2003. However, in 2004 property tax revenues decreased and in 2005 tax revenue decreased by \$141,362. We expect the decrease to continue into 2006.

The Districts Administrative Control Board and management staff decided to increase the monthly charges for culinary water and sewer user's fees. These increases went into effect in 2004. Public Hearings concerning the proposed user fee increases were held throughout the District and the Board passed a Resolution in April 2004 to increase the rates on July 1, 2004. The action increased the revenue by about \$200,000 in 2005 and will increase revenue by about \$210,000 in 2006. During the past few years, the Mineral Lease Reserve had been significantly declining. Mineral Lease Reserve is received by the District from Leases of Federal Coal and Oil production on Federal land. However in 2005 Mineral Lease Revenue increased by \$21,3490 over 2004 Revenues.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES (Continued)

The District is still hopeful that PacifiCorp will build a fourth generating unit at the Hunter plant site. Their plans are not yet finalized, but they have begun applying for permits and environmental clearances. If they do decide to build the plant, construction will not start for a few years, but would bring large employment to the District. The property tax value will be greatly increased and increased property tax revenue would be realized.

The budgets for 2006 have been approved and implemented. In the general fund, personnel costs of \$919,000 are the largest expenditure for the District. A 2% cost of living increase was budgeted for 2006. The second largest expenditure is for road maintenance at \$413,000. In 2006 we plan to chip-seal the streets in the communities of Cleveland and Elmo. In 2006 the District plans to continue with our bonding and construction program. It is expected that the District will issue \$1.2 million of General Obligation Bonds and receive a \$0.75 million grant from the Permanent Community Impact Board for the construction of streets, curb and gutter, sewer lines and storm drains.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District Manager at 86 South 100 East, Castle Dale, Utah 84513, telephone at (435) 381-5333 or e-mail at cvssd@etv.net.

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

| <u>ASSETS</u> | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|------------------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 63,587 |
| Investments, at cost | 988,396 |
| Restricted: | |
| Investments | 1,787,250 |
| Receivables: | |
| Taxes | 20,097 |
| Due from other governments | 52,817 |
| Prepaid expenses | 14,373 |
| | <hr/> |
| Total current assets | \$ 2,926,520 |
| | <hr/> |
| Noncurrent assets: | |
| Bond issuance costs, net | \$ 35,541 |
| Bond discount, net | 14,001 |
| Capital assets (net of accumulated depreciation): | |
| Land and easements | 218,683 |
| Buildings | 31,042 |
| Infrastructure | 18,432,700 |
| Machinery and equipment | 482,231 |
| | <hr/> |
| Total noncurrent assets | \$ 19,214,198 |
| | <hr/> |
| Total assets | \$ 22,140,718 |
| | <hr/> |

"The accompanying notes are an integral part of this statement."

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

GOVERNMENTAL
ACTIVITIES

LIABILITIES AND NET ASSETS

LIABILITIES:

Current liabilities:

| | |
|---|-----------|
| Vouchers payable | \$ 52,329 |
| Accrued liabilities | 158 |
| Bond interest payable | 95,829 |
| Capital lease interest payable | 4,868 |
| G.O. bonds payable - Due within one year | 996,300 |
| Capital lease payable - Due within one year | 73,687 |

| | |
|---------------------------|--------------|
| Total current liabilities | \$ 1,223,171 |
|---------------------------|--------------|

Noncurrent liabilities:

| | |
|---|-----------|
| Compensated absences | \$ 76,985 |
| G.O. bonds payable - Due in more than one year | 6,551,000 |
| Capital lease payable - Due in more than one year | 153,916 |

| | |
|------------------------------|--------------|
| Total noncurrent liabilities | \$ 6,781,901 |
|------------------------------|--------------|

| | |
|-------------------|--------------|
| Total liabilities | \$ 8,005,072 |
|-------------------|--------------|

NET ASSETS:

| | |
|---|---------------|
| Invested in capital assets, net of related debt | \$ 11,289,056 |
|---|---------------|

Restricted for:

| | |
|----------------------------|-----------|
| General Fund - water plant | 57,831 |
| Capital Projects | 551,004 |
| Debt service | 1,178,415 |
| Unrestricted | 1,059,340 |

| | |
|------------------|---------------|
| Total net assets | \$ 14,135,646 |
|------------------|---------------|

| | |
|----------------------------------|---------------|
| Total liabilities and net assets | \$ 22,140,718 |
|----------------------------------|---------------|

"The accompanying notes are an integral part of this statement."

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense)</u> |
|--|-----------------|-------------------------|----------------------|----------------------|
| | | <u>Charges for</u> | <u>Capital</u> | <u>Revenue and</u> |
| | | <u>Services</u> | <u>Grants and</u> | <u>Changes in</u> |
| | | | <u>Contributions</u> | <u>Net Assets</u> |
| | | | | <u>Governmental</u> |
| | | | | <u>Activities</u> |
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | \$ 275,101 | | | \$ (275,101) |
| Public works | 3,893,547 | \$ 576,533 | \$ 763,324 | (2,553,690) |
| Interest on long-term debt | 167,113 | | | (167,113) |
| Total governmental activities | \$ 4,335,761 | \$ 576,533 | \$ 763,324 | \$ (2,995,904) |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purposes | | | | \$ 946,291 |
| Property taxes, levied for debt service | | | | 1,176,403 |
| Grants and contributions not restricted to specific programs | | | | 533,076 |
| Miscellaneous | | | | 63,971 |
| Investment earnings | | | | 90,192 |
| Total general revenues | | | | \$ 2,809,933 |
| Change in net assets | | | | \$ (185,971) |
| Net assets - beginning | | | | 14,321,617 |
| Net assets - ending | | | | \$ 14,135,646 |

"The accompanying notes are an integral part of this statement."

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

DECEMBER 31, 2005

| | <u>GENERAL FUND</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|---|-------------------------|-------------------------|-----------------------------|---|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 63,587 | | | \$ 63,587 |
| Investments | 1,043,350 | \$ 1,167,133 | \$ 565,163 | 2,775,646 |
| Receivables: | | | | |
| Taxes | 8,815 | 11,282 | | 20,097 |
| Due from other governments | 52,817 | | | 52,817 |
| Prepaid expenses | 14,373 | | | 14,373 |
| Total assets | <u>\$ 1,182,942</u> | <u>\$ 1,178,415</u> | <u>\$ 565,163</u> | <u>\$ 2,926,520</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| LIABILITIES: | | | | |
| Vouchers payable | \$ 38,170 | | \$ 14,159 | \$ 52,329 |
| Accrued liabilities | 158 | | | 158 |
| Total liabilities | <u>\$ 38,328</u> | <u>\$...</u> | <u>\$ 14,159</u> | <u>\$ 52,487</u> |
| FUND BALANCES: | | | | |
| Reserved for: | | | | |
| Debt service | | \$ 1,178,415 | | \$ 1,178,415 |
| General Fund - water plant | \$ 57,831 | | | 57,831 |
| Capital Projects fund | | | \$ 551,004 | 551,004 |
| Unreserved, reported in: | | | | |
| General fund | 1,086,783 | | | 1,086,783 |
| Total fund balances | <u>\$ 1,144,614</u> | <u>\$ 1,178,415</u> | <u>\$ 551,004</u> | <u>\$ 2,874,033</u> |
| Total liabilities and fund balances | <u>\$ 1,182,942</u> | <u>\$ 1,178,415</u> | <u>\$ 565,163</u> | <u>\$ 2,926,520</u> |

"The accompanying notes are an integral part of this statement."

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005

| | | |
|--|---|----------------------|
| Total fund balances - governmental fund types: | | \$ 2,874,033 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. | | |
| | Land and easements | \$ 218,683 |
| | Buildings | 31,042 |
| | Infrastructure | 18,432,700 |
| | Machinery & equipment | 482,231 |
| | | <u>19,164,656</u> |
| Bond issuance costs are reported as expenditures in the governmental funds. | | |
| The cost is \$48,656 and accumulated amortization is \$13,115. | | 35,541 |
| Bond discounts are reported as an adjustment to income in the governmental funds. | | |
| The discount is \$21,000 and accumulated amortization in \$6,999. | | 14,001 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| | Bond interest payable | \$ (95,829) |
| | Capital lease interest payable | (4,868) |
| | G.O. bonds payable - current portion | (996,300) |
| | Capital lease payable - current portion | (73,687) |
| | G.O. bonds payable - > one year | (6,551,000) |
| | Capital lease payable - > one year | (153,916) |
| | Compensated absences | (76,985) |
| | | <u>(7,952,585)</u> |
| Net assets of governmental activities | | <u>\$ 14,135,646</u> |

"The accompanying notes are an integral part of this statement."

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

| | | | | TOTAL GOVERNMENTAL FUND |
|---|---------------------|---------------------|-----------------------|-------------------------------|
| | GENERAL | DEBT SERVICE | CAPITAL PROJECTS | DECEMBER 31, 2005 |
| REVENUES: | | | | |
| Taxes | \$ 946,291 | \$ 1,176,403 | | \$ 2,122,694 |
| Charges for services | 576,533 | | | 576,533 |
| Intergovernmental | 565,008 | | \$ 631,392 | 1,196,400 |
| Interest revenue | 18,209 | | 71,983 | 90,192 |
| Miscellaneous | 163,667 | 238 | 66 | 163,971 |
| Total revenues | <u>\$ 2,269,708</u> | <u>\$ 1,176,641</u> | <u>\$ 703,441</u> | <u>\$ 4,149,790</u> |
| EXPENDITURES: | | | | |
| Current - | | | | |
| General government | \$ 309,094 | \$ 13,500 | \$ 7,266 | \$ 329,860 |
| Public works | 1,233,779 | | | 1,233,779 |
| Capital outlay | 501,075 | | 3,509,106 | 4,010,181 |
| Debt service - | | | | |
| Principal retirement | | 869,000 | | 869,000 |
| Interest on long term debt | | 159,804 | | 159,804 |
| Total expenditures | <u>\$ 2,043,948</u> | <u>\$ 1,042,304</u> | <u>\$ 3,516,372</u> | <u>\$ 6,602,624</u> |
| Excess of revenue over (under) expenditures | <u>\$ 225,760</u> | <u>\$ 134,337</u> | <u>\$ (2,812,931)</u> | <u>\$ (2,452,834)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Capital lease financing | \$ 68,000 | | | \$ 68,000 |
| Bond proceeds | | | \$ 1,200,000 | 1,200,000 |
| Total other financing sources (uses) | <u>\$ 68,000</u> | <u>\$...</u> | <u>\$ 1,200,000</u> | <u>\$ 1,268,000</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | <u>\$ 293,760</u> | <u>\$ 134,337</u> | <u>\$ (1,612,931)</u> | <u>\$ (1,184,834)</u> |
| FUND BALANCE, January 1, | 850,854 | 1,044,078 | 2,163,935 | 4,058,867 |
| FUND BALANCE, December 31, | <u>\$ 1,144,614</u> | <u>\$ 1,178,415</u> | <u>\$ 551,004</u> | <u>\$ 2,874,033</u> |

"The accompanying notes are an integral part of this statement."

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net changes in fund balances - total governmental funds \$ (1,184,834)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,146,509) exceeded depreciation (\$798,237) in the current period. 1,348,272

The issuance of long-term debt (e.g., bonds) provide current financial resources to governmental funds, while the repayment of the principal and interest of long-term debt consumes the current financial resources of governmental funds. In the Statement of Activity, principal payment on bonds is not recorded and interest expense is recognized as it accrues, regardless of when it is due. Also, governmental funds report the effect of of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

| | | |
|---|----------------|-----------|
| General obligation bonds issued | \$ (1,200,000) | |
| Capital lease financing | (68,000) | |
| Bond issuance costs | 13,305 | |
| Repayment of bond principal | 869,000 | |
| Repayment of capital lease | 50,397 | |
| Interest expense - general obligation bonds | (7,309) | |
| Amortization of bond issuance costs | (6,610) | |
| Amortization of bond discount | (2,333) | (351,550) |
| | | |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 2,141

Change in net assets of governmental activities \$ (185,971)

"The accompanying notes are an integral part of this statement."

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>BUDGET AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|-----------------------|--------------|----------------|----------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> | <u>WITH</u> |
| | | | | <u>FINAL BUDGET</u> |
| | | | | <u>FAVORABLE</u> |
| | | | | <u>(UNFAVORABLE)</u> |
| REVENUES: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 934,000 | \$ 922,300 | \$ 946,291 | \$ 23,991 |
| Charges to Cities for roads | 35,500 | 32,000 | 31,932 | (68) |
| Connection fees | 12,000 | 12,000 | 43,625 | 31,625 |
| User fees | 498,350 | 513,600 | 532,908 | 19,308 |
| Interest income | 8,600 | 25,800 | 18,209 | (7,591) |
| Mineral lease revenue | 368,000 | 533,000 | 533,076 | 76 |
| Contribution/Miscellaneous revenue | 1,000 | 163,700 | 163,667 | (33) |
| Total revenues | \$ 1,857,450 | \$ 2,202,400 | \$ 2,269,708 | \$ 67,308 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | | | | |
| Board expenses | \$ 6,000 | \$ 6,000 | \$ 5,150 | \$ 850 |
| Wages & fringe benefits | 162,200 | 164,600 | 164,687 | (87) |
| Office rental | 6,900 | 6,900 | 6,840 | 60 |
| Utilities, telephone and blue stakes | 7,000 | 7,000 | 6,657 | 343 |
| Office supplies | 2,500 | 2,500 | 4,944 | (2,444) |
| Insurance | 28,000 | 28,000 | 28,985 | (985) |
| Continuing Ed & membership dues | 7,000 | 7,000 | 5,173 | 1,827 |
| Engineering and GIS | 15,000 | 15,000 | 5,263 | 9,737 |
| Accounting | 7,500 | 7,500 | 7,127 | 373 |
| Legal | 12,000 | 12,000 | 11,235 | 765 |
| Travel, miscellaneous and publications | 64,100 | 64,100 | 63,033 | 1,067 |
| Total general government | \$ 318,200 | \$ 320,600 | \$ 309,094 | \$ 11,506 |
| Public works | | | | |
| Wages and fringe benefits | \$ 712,450 | \$ 727,600 | \$ 717,019 | \$ 10,581 |
| Rental | 1,000 | 1,000 | | 1,000 |
| Transportation and fuel | 42,200 | 47,200 | 44,307 | 2,893 |
| Pipe, valves, and fittings | 70,000 | 140,000 | 146,717 | (6,717) |
| Gravel, mulch and cement | 10,000 | 10,000 | 8,520 | 1,480 |
| Chemicals | 42,000 | 42,000 | 39,884 | 2,116 |
| Small tools | 10,000 | 12,000 | 11,156 | 844 |
| Lab tests and equipment | 20,000 | 23,500 | 23,858 | (358) |
| Maintenance | 57,400 | 85,800 | 112,065 | (26,265) |
| Utilities | 110,000 | 110,000 | 109,027 | 973 |
| Outside contractors | 12,000 | 12,000 | 20,848 | (8,848) |
| Janitorial Supplies | 600 | 600 | 378 | 222 |
| Miscellaneous | 600 | 600 | | 600 |
| Total public works | \$ 1,088,250 | \$ 1,212,300 | \$ 1,233,779 | \$ (21,479) |

"The accompanying notes are an integral part of this statement."

CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

| | BUDGET AMOUNTS | | ACTUAL AMOUNTS | VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE) |
|--|----------------|--------------|-------------------|--|
| | ORIGINAL | FINAL | | |
| Capital outlay | | | | |
| Capital expenditures | \$ 513,000 | \$ 504,700 | \$ 501,075 | \$ 3,625 |
| Emergency reserve | 20,000 | 20,000 | | 20,000 |
| Total capital outlay | \$ 533,000 | \$ 524,700 | \$ 501,075 | \$ 23,625 |
| Total expenditures | \$ 1,939,450 | \$ 2,057,600 | \$ 2,043,948 | \$ 13,652 |
| Excess of revenue over (under) expenditures | \$ (82,000) | \$ 144,800 | \$ 225,760 | \$ 80,960 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Capital lease financing | \$ 82,000 | \$ 82,000 | \$ 68,000 | \$ (14,000) |
| Total other financing sources (uses) | \$ 82,000 | \$ 82,000 | \$ 68,000 | \$ (14,000) |
| Excess of revenues and other sources over (under) expenditures and other uses | | \$ 226,800 | \$ 293,760 | \$ 66,960 |
| Fund balances - beginning of year | | 850,854 | 850,854 | |
| Fund balances - end of year | \$... | \$ 1,077,654 | \$ 1,144,614 | \$ 66,960 |

"The accompanying notes are an integral part of this statement."

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF EMERY COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Castle Valley Special Service District have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting polices of the District are described below.

A. Reporting Entity

Castle Valley Special Service District (referred to as the District hereafter) was organized under the State of Utah's Statute for Special Service Districts, Section 1123, by Emery County in 1976. The District has an 11-member board comprised of 3 members appointed by county commissioners and 8 members who are appointed by the towns that are encompassed by the District's services. The District provides the following services: culinary water, sewer, pressurized irrigation, drainage, and road improvements and maintenance.

The criteria used by the District to determine the reporting entity consists of including any governmental department, agency, institution, commission or other governmental organization of which the District's governing board has financial accountability. Financial accountability is derived from the governmental units' power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Financial accountability implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other. According to these criteria, the District is considered a "component unit" of Emery County, and has been included in the County's financial statements.

B. New Accounting Standards Adopted

Effective January 1, 2002, the District adopted the following pronouncements issued by GASB:

- Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
- Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus
- Statement No. 38, Certain Financial Statement Note Disclosures

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **New Accounting Standards Adopted (Continued)**

GASB Statement No. 34 (as amended by GASB Statement No. 37) represents a significant change in the financial reporting model used by state and local governments. GASB Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide model does not provide information by fund or account group, but reports the District's aggregate activities as governmental activities. The statement of net assets includes both noncurrent assets and liabilities of the District. The statement of activities reflects depreciation expenses on the District's capital assets. GASB statement No. 34 also requires a Management's Discussion and Analysis as required supplementary information. The Management's Discussion and Analysis is an overview of the District's financial activities.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. While this statement did not affect amounts reported in the basic financial statements, certain note disclosures have been added.

C. **Government-Wide Financial Statements**

Generally accepted accounting principles (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. These government-wide financial statements are required to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customer who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

The statement of net assets is the basic government-wide statement of position that presents all of the District's permanent accounts (assets, liabilities, and net assets).

D. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accruals revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first then unrestricted resources, as they are needed.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Capital Assets**

Capital assets, which include, land, easements, water stock, buildings and improvements, vehicles, equipment and infrastructure assets (e.g., drainage systems and water and sewer systems) are reported in the government-wide financial statements. The District defines capital assets as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the District is not included as part of the capitalized value of the assets constructed.

Buildings, vehicles, machinery and equipment and infrastructure of the District is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 10-30 |
| Vehicles | 5-7 |
| Machinery & Equipment | 5-15 |
| Infrastructure | 10-50 |

In the fund financial statements, costs related to capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisitions.

F. **Budgeting**

The system of budgeting used by the District complies primarily with the procedures outlined in the "State of Utah Uniform Accounting Manual for Special Districts," which is in accordance with generally accepted accounting principles. Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end.

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance – that is estimated revenues and expenditures must equal.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. **Budgeting (Continued)**

3. On or before November 1, the District Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least ten days prior to the meetings.
6. Public hearings are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.
7. The Board of Trustees considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the Board of Trustees adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

G. **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

H. **Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide statements. A percentage of sick leave is accrued based upon the employees' years of service with the district. Unused sick leave is only paid if the employee retires.

I. **Prepaid Expense**

Prepaid expenses reported on the statement of net assets consist of insurance. The District has adopted the policy of using the consumption method when recording insurance expenditures. This means that insurance expense is recorded as an expenditure as insurance is used, or in other words, premiums paid are expensed according to the lapsing of time.

J. **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net assets.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. **Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. **Property Taxes**

The property tax revenue of the District is collected and distributed by the Emery County Treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until paid.

As of December 31, 2005, property taxes receivable consists of delinquent taxes assessed but uncollected for calendar year 2005. It is expected that all delinquencies plus accrued interest and penalties will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

N. **Net Asset Classifications**

In the government-wide financial statements, net assets are displayed in three components:

- a. Invested in capital assets, net of related debt -- consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Asset Classifications (Continued)

- b. Restricted net assets – consist of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net or related debt.”

Governmental fund equity is classified as fund balance. Fund balance is classified as either reserved or unreserved, with unreserved further split between designated and undesignated. Amounts are classified as reserved when amounts are required to be reserved for a specific purpose, either through legislation or third-party contracts. The Board of Trustees can designate unreserved amounts for a specific purpose.

2. DEPOSITS AND INVESTMENTS

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District’s bank balance of cash on deposit was \$198,417 of this amount \$100,000 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

2. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Income from the investment of the pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by some funds.

As of December 31, 2005, the District had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|--|--------------|----------------------------------|--------|--------|--------------|
| | | Less Than 1 | 1-5 | 6-10 | More than 10 |
| State of Utah Public Treasurer's Investment Fund | \$ 2,775,646 | \$ 2,775,646 | | | |
| Total Investments | \$ 2,775,646 | \$ 2,775,646 | \$... | \$... | \$... |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

2. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

At December 31, 2005, the District had the following investments and quality ratings:

| Investment Type | Fair Value | Quality Ratings | | | Unrated |
|---|---------------|-----------------|--------|--------|--------------|
| | | AAA | AA | A | |
| State of Utah Public Treasurer's Investment Fund | \$ 2,775,646 | | | | \$ 2,775,646 |
| Total | \$ 2,775,646 | \$... | \$... | \$... | \$ 2,775,646 |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$2,775,646 invested in the Public Treasurer's Investment Fund and was held by them.

3. MAJOR TAXPAYER

The District derives significant revenues from property taxes. Pacificorp is a major taxpayer in the county, where the District is located. According to the County Treasurer's estimate, Pacificorp supplies 73 percent of the District's tax revenues.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 218,683 | | | \$ 218,683 |
| Construction in process | 753,618 | | \$ 753,618 | |
| Total capital assets not being depreciated: | <u>\$ 972,301</u> | <u>\$...</u> | <u>\$ 753,618</u> | <u>\$ 218,683</u> |
| Capital assets being depreciated: | | | | |
| Buildings | \$ 66,703 | | | \$ 66,703 |
| Machinery and Equipment | 1,175,630 | \$ 196,489 | \$ 86,765 | 1,285,354 |
| Infrastructure | 25,881,079 | 2,703,638 | | 28,584,717 |
| Total capital assets being depreciated: | <u>\$ 27,123,412</u> | <u>\$ 2,900,127</u> | <u>\$ 86,765</u> | <u>\$ 29,936,774</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ 33,993 | \$ 1,668 | | \$ 35,661 |
| Machinery and Equipment | 800,956 | 88,932 | \$ 86,765 | 803,123 |
| Infrastructure | 9,444,380 | 707,637 | | 10,152,017 |
| Total accumulated depreciation | <u>\$ 10,279,329</u> | <u>\$ 798,237</u> | <u>\$ 86,765</u> | <u>\$ 10,990,801</u> |
| Total capital assets being depreciation, net | <u>\$ 16,844,083</u> | <u>\$ 2,101,890</u> | <u>\$...</u> | <u>\$ 18,945,973</u> |
| Governmental activities capital assets, net | <u>\$ 17,816,384</u> | <u>\$ 2,101,890</u> | <u>\$ 753,618</u> | <u>\$ 19,164,656</u> |

4. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:

Public works \$ 798,237

Total depreciation expense -
governmental activities \$ 798,237

5. **BUDGET COMPLIANCE**

Utah State law requires that budgetary compliance be measured on a fund level. During the year ended December 31, 2005, there were no unfavorable budget variances.

6. **PROPERTY TAX CALENDAR**

The District adopts, by June 22, the proposed tax rates as part of its budget for the current year, which began January 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed, by the county assessor, on property in the County on the prior January 1. The taxes are payable to the county treasurer by the end of November and are remitted to the District by the county treasurer as collected.

7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>DUE DATE</u> | <u>G.O.B. SERIES 2005A</u> | <u>G.O.B. SERIES 2004A</u> | <u>G.O.B. SERIES 2003A</u> | <u>G.O.B. SERIES 2003B</u> |
|---------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 2006 | | \$ 113,300 | | \$ 30,000 |
| 2007 | \$ 228,000 | 116,000 | | 75,000 |
| 2008 | 234,000 | 119,000 | | 80,000 |
| 2009 | 240,000 | 123,000 | \$ 325,000 | 360,000 |
| 2010 | 246,000 | 126,000 | 335,000 | 375,000 |
| 2011-2015 | 252,000 | 676,000 | 340,000 | 1,150,000 |
| | <u><u>\$ 1,200,000</u></u> | <u><u>\$ 1,273,300</u></u> | <u><u>\$ 1,000,000</u></u> | <u><u>\$ 2,070,000</u></u> |

7. **LONG-TERM DEBT (Continued)**

| <u>DUE DATE</u> | <u>G.O.B. SERIES 2002A</u> | <u>G.O.B. SERIES 2001A</u> | <u>G.O.B. SERIES 2000A</u> | <u>G.O.B. SERIES 1999A</u> | <u>TOTAL GENERAL OBLIGATION BONDS</u> |
|---------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| 2006 | \$ 148,000 | \$ 205,000 | \$ 200,000 | \$ 300,000 | \$ 996,300 |
| 2007 | 151,000 | 210,000 | 206,000 | | 986,000 |
| 2008 | 157,000 | 215,000 | 212,000 | | 1,017,000 |
| 2009 | | | | | 1,048,000 |
| 2010 | | | | | 1,082,000 |
| 2011-2015 | | | | | 2,418,000 |
| | <u>\$ 456,000</u> | <u>\$ 630,000</u> | <u>\$ 618,000</u> | <u>\$ 300,000</u> | <u>\$ 7,547,300</u> |

The long-term debt activity for the year ending December 31, 2005, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|------------------------------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| G.O.B Series 1999A | \$ 600,000 | | \$ 300,000 | \$ 300,000 | \$ 300,000 |
| G.O.B Series 2000A | 812,000 | | 194,000 | 618,000 | 200,000 |
| G.O.B Series 2001A | 830,000 | | 200,000 | 630,000 | 205,000 |
| G.O.B Series 2002A | 601,000 | | 145,000 | 456,000 | 148,000 |
| G.O.B Series 2003A | 1,000,000 | | | 1,000,000 | |
| G.O.B Series 2003B | 2,100,000 | | 30,000 | 2,070,000 | 30,000 |
| G.O.B Series 2004A | 1,273,300 | | | 1,273,300 | 113,300 |
| G.O.B Series 2005A | | \$ 1,200,000 | | 1,200,000 | |
| Capital Lease | 210,000 | 68,000 | 50,397 | 227,603 | 73,687 |
| Compensated Absences | 79,126 | | 2,141 | 76,985 | |
| | | | | | |
| Governmental activity long-term liabilities | <u>\$ 7,505,426</u> | <u>\$ 1,268,000</u> | <u>\$ 921,538</u> | <u>\$ 7,851,888</u> | <u>\$ 1,069,987</u> |

7. **LONG-TERM DEBT (Continued)**

During 1999, the District issued \$1,500,000 of General Obligation Bonds. The first principal payment was due January 15, 2002. The District is not required to make any interest payments. The repayment schedule is as follows:

| <u>DATE PAYMENT DUE</u> | <u>PRINCIPAL DUE</u> |
|---------------------------------|--------------------------|
| January 15, 2006 | <u>\$ 300,000</u> |
| | <u>\$ 300,000</u> |

During 2000, the District issued \$1,000,000 of General Obligation Bonds. The bonds carry an interest rate of three percent (3.00%) per annum with interest payable commencing January 1, 2002 and on each January 1st thereafter until maturity. Principal payments on this bond issue begin January 1, 2004 and continue through January 1, 2008. The repayment schedule is as follows:

| <u>DATE PAYMENT DUE</u> | <u>PRINCIPAL DUE</u> | <u>INTEREST CHARGES</u> | <u>AMOUNT PRINCIPAL AND INTEREST</u> |
|---------------------------------|--------------------------|-----------------------------|--|
| January 1, 2006 | \$ 200,000 | \$ 18,540 | \$ 218,540 |
| January 1, 2007 | 206,000 | 12,540 | 218,540 |
| January 1, 2008 | <u>212,000</u> | <u>6,360</u> | <u>218,360</u> |
| | <u>\$ 618,000</u> | <u>\$ 37,440</u> | <u>\$ 655,440</u> |

During 2001, the District issued \$1,000,000 of General Obligation Bonds. The bonds carry an interest rate of two and one half percent (2.50%) per annum with interest payable commencing January 1, 2004 and on each January 1st thereafter until maturity. Principal payments on this bond issue begin January 1, 2004 and continue through January 1, 2008. The repayment schedule is as follows on the next page:

7. LONG-TERM DEBT (Continued)

| DATE PAYMENT DUE | PRINCIPAL DUE | INTEREST CHARGES | AMOUNT PRINCIPAL AND INTEREST |
|------------------------|-------------------|---------------------|--|
| January 1, 2006 | \$ 205,000 | \$ 15,750 | \$ 220,750 |
| January 1, 2007 | 210,000 | 10,625 | 220,625 |
| January 1, 2008 | 215,000 | 5,375 | 220,375 |
| | <u>\$ 630,000</u> | <u>\$ 31,750</u> | <u>\$ 661,750</u> |

During 2002, the District issued \$743,800 of General Obligation Bonds. The bonds carry an interest rate of two and one half percent (2.50%) per annum with interest payable commencing December 1, 2004 and on each December 1st thereafter until maturity. Principal payments on this bond issue begin December 1, 2004 and continue through December 1, 2008. The repayment schedule is as follows:

| DATE PRINCIPAL DUE | PRINCIPAL DUE | INTEREST CHARGES | PRINCIPAL AND INTEREST |
|--------------------------|-------------------|---------------------|------------------------------|
| December 1, 2006 | \$ 148,000 | \$ 11,400 | \$ 159,400 |
| December 1, 2007 | 151,000 | 7,700 | 158,700 |
| December 1, 2008 | 157,000 | 3,925 | 160,925 |
| | <u>\$ 456,000</u> | <u>\$ 23,025</u> | <u>\$ 479,025</u> |

During 2003, the District issued \$1,000,000 of General Obligation Bonds. The bonds carry an interest rate of two and one half percent (2.50%) per annum with interest payable commencing March 1, 2004 and on each March 1st thereafter until maturity. Principal payments on this bond issue begin March 1, 2009 and continue through March 1, 2011. The repayment schedule is as follows:

7. **LONG-TERM DEBT (Continued)**

| <u>DATE PRINCIPAL DUE</u> | <u>PRINCIPAL DUE</u> | <u>INTEREST CHARGES</u> | <u>PRINCIPAL AND INTEREST</u> |
|-----------------------------------|--------------------------|-----------------------------|---------------------------------------|
| March 1, 2006 | | \$ 25,000 | \$ 25,000 |
| March 1, 2007 | | 25,000 | 25,000 |
| March 1, 2008 | | 25,000 | 25,000 |
| March 1, 2009 | \$ 325,000 | 25,000 | 350,000 |
| March 1, 2010 | 335,000 | 16,875 | 351,875 |
| March 1, 2011 | 340,000 | 8,500 | 348,500 |
| | <u>\$ 1,000,000</u> | <u>\$ 125,375</u> | <u>\$ 1,125,375</u> |

During 2003, the District issued \$2,100,000 of General Obligation Bonds. The bonds carry an interest rate ranging from 2.15% through 3.80% per annum with interest payable commencing March 15, 2004 and on each March 15th and September 15th thereafter until maturity. Principal payments on this bond issue begin March 15, 2005 and continue through March 15, 2012. The repayment schedule is as follows:

| <u>DATE PRINCIPAL DUE</u> | <u>PRINCIPAL DUE</u> | <u>INTEREST CHARGES</u> | <u>PRINCIPAL AND INTEREST</u> |
|-----------------------------------|--------------------------|-----------------------------|---------------------------------------|
| March 15, 2006 | \$ 30,000 | \$ 36,974 | \$ 66,974 |
| September 15, 2006 | | 36,591 | 36,591 |
| March 15, 2007 | 75,000 | 36,591 | 111,591 |
| September 15, 2007 | | 35,504 | 35,504 |
| March 15, 2008 | 80,000 | 35,504 | 115,504 |
| September 15, 2008 | | 34,244 | 34,244 |
| March 15, 2009 | 360,000 | 34,244 | 394,244 |
| September 15, 2009 | | 28,214 | 28,214 |
| March 15, 2010 | 375,000 | 28,214 | 403,214 |
| September 15, 2010 | | 21,557 | 21,557 |
| March 15, 2011 | 390,000 | 21,557 | 411,557 |
| September 15, 2011 | | 14,440 | 14,440 |
| March 15, 2012 | 760,000 | 14,440 | 774,440 |
| | <u>\$ 2,070,000</u> | <u>\$ 378,074</u> | <u>\$ 2,448,074</u> |

7. **LONG-TERM DEBT (Continued)**

During 2004, the District issued \$1,273,300 of General Obligation Public Purpose Bonds, Series 2004A. The bonds carry an interest rate of two and one half percent (2.50%) per annum with interest payable commencing March 1, 2006 and on each March 1st thereafter until maturity. Principal payments on this bond issue begin March 1, 2006 and continue through March 1, 2015. The repayment schedule is as follows:

| <u>DATE PRINCIPAL DUE</u> | <u>PRINCIPAL DUE</u> | <u>INTEREST CHARGES</u> | <u>PRINCIPAL AND INTEREST</u> |
|-----------------------------------|--------------------------|-----------------------------|---------------------------------------|
| March 1, 2006 | \$ 113,300 | \$ 31,833 | \$ 145,133 |
| March 1, 2007 | 116,000 | 29,000 | 145,000 |
| March 1, 2008 | 119,000 | 26,100 | 145,100 |
| March 1, 2009 | 123,000 | 23,125 | 146,125 |
| March 1, 2010 | 126,000 | 20,050 | 146,050 |
| March 1, 2011 | 129,000 | 16,900 | 145,900 |
| March 1, 2012 | 132,000 | 13,675 | 145,675 |
| March 1, 2013 | 135,000 | 10,375 | 145,375 |
| March 1, 2014 | 138,000 | 7,000 | 145,000 |
| March 1, 2015 | 142,000 | 3,550 | 145,550 |
| | <u>\$ 1,273,300</u> | <u>\$ 181,608</u> | <u>\$ 1,454,908</u> |

During 2005, the District issued \$1,200,000 of General Obligation Bonds. The bonds carry an interest rate of two and one half percent (2.50%) per annum with interest payable commencing March 1, 2007 and on each March 1st thereafter until maturity. Principal payments on this bond issue begin March 1, 2007 and continue through March 1, 2011. The repayment schedule is as follows:

| <u>DATE PRINCIPAL DUE</u> | <u>PRINCIPAL DUE</u> | <u>INTEREST CHARGES</u> | <u>PRINCIPAL AND INTEREST</u> |
|-----------------------------------|--------------------------|-----------------------------|---------------------------------------|
| March 1, 2007 | \$ 228,000 | \$ 30,000 | \$ 258,000 |
| March 1, 2008 | 234,000 | 24,300 | 258,300 |
| March 1, 2009 | 240,000 | 18,450 | 258,450 |
| March 1, 2010 | 246,000 | 12,450 | 258,450 |
| March 1, 2011 | 252,000 | 6,300 | 258,300 |
| | <u>\$ 1,200,000</u> | <u>\$ 91,500</u> | <u>\$ 1,291,500</u> |

7. **LONG-TERM DEBT (Continued)**

Capital Leases

During 2004, the District entered into a lease purchase agreement to acquire a Vactor sewer truck. The total amount of the lease was \$210,000. The lease requires four annual payments of \$56,023.60 beginning April 13, 2005. The following is a schedule of future minimum lease payments together with the present value of the minimum lease payments, as of December 31, 2005:

| <u>PAYMENT DUE</u> | <u>PAYMENT AMOUNT</u> |
|--|-----------------------------|
| April 13, 2006 | \$ 56,023.60 |
| April 13, 2007 | 56,023.60 |
| April 13, 2008 | <u>56,023.60</u> |
| Total net minimum lease payment | \$ 168,070.80 |
| Less amount representing interest | <u>(8,467.57)</u> |
| Present value of net minimum lease payments | <u><u>\$ 159,603.23</u></u> |

Capital Leases

During 2005, the District entered into a lease purchase agreement to acquire a street sweeper truck. The total amount of the lease was \$68,000. The lease requires three annual payments of \$24,271.52 beginning March 25, 2006. The following is a schedule of future minimum lease payments together with the present value of the minimum lease payments, as of December 31, 2005:

| <u>PAYMENT DUE</u> | <u>PAYMENT AMOUNT</u> |
|--|----------------------------|
| May 25, 2006 | \$ 24,271.52 |
| May 25, 2007 | 24,271.52 |
| May 25, 2008 | <u>24,271.52</u> |
| Total net minimum lease payment | \$ 72,814.56 |
| Less amount representing interest | <u>(4,814.56)</u> |
| Present value of net minimum lease payments | <u><u>\$ 68,000.00</u></u> |

8. **PRIOR YEAR DEFEASANCE OF DEBT**

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On December 31, 2005, \$95,000 of bonds outstanding is considered defeased.

9. **PENSION PLANS**

At December 31, 2005, the District was participating in the Utah State Retirement Systems. We have listed below information pertaining to the retirement systems.

Local Governmental - Cost Sharing

Plan Description. The District contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 E. 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and the District is required to contribute 7.08% of its annual covered salary. In the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.09% of its annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions to the Local Contributory Retirement System for the years ending December 31, 2005, 2004 and 2003 were \$3,465.34, \$2,931.54, and \$2,389.83 respectively and for the Noncontributory Retirement System the Contributions for December 31, 2005, 2004 and 2003 were \$45,216.81, \$44,412.73 and \$37,217.88 respectively. The contributions were equal to the required contributions for each year.

Equitable

During a certain period of time, Managers of certain governmental departments were eligible to withdraw from the Utah Retirement Systems. The Manager chose to withdraw his funds and establish his own pension plan at the time the State allowed this withdrawal.

9. **PENSION PLANS (Continued)**

The funds were withdrawn and invested in a Single Premium Deferred Annuity. The ongoing contributions are being invested in a PEDC (Public Employee Deferred Compensation Plan) with Equivest, a wholly owned subsidiary of Equitable. The Equivest Plan is a variable annuity that is currently invested as a Guaranteed Interest Account.

The employer is not required to make contributions to the plan. The employer contributed 13.08% of salary during 2005. The total dollar amount of contributions was \$10,468, which was 13.08% of payroll. Total payroll and covered payroll, which applies to the plan, was \$80,028.

10. **SUBSEQUENT EVENT**

The District received a loan and grant authorization from the Permanent Community Impact Fund Board authorizing a \$1,228,000 loan and a \$500,000 grant. The loan and grant funds will be used to finance the construction and improvements to streets, curb and gutters, sewer lines and storm drains. The bond closing was scheduled to be held on March 17, 2006 at which time the District would receive these funds.

11. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To more economically cover these liabilities, the District joined together with other governmental entities to form a public entity risk pool that operated as a common risk management and insurance program. The District pays an annual premium to the risk management pool for its general insurance coverage. The agreement for formation of the risk management pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies at various levels of risk.

The District continues to carry commercial insurance for all other risks of loss, including workers compensation and employee health and accident insurance.

12. **RESTRICTED CASH AND NET ASSETS**

Through the years of operations, the District has issued general obligation bonds, set up escrow and retainage accounts and accumulated tax revenue to make payments on bonds. To keep track of these funds, the District has restricted the use of these funds in the following manner:

| | |
|--------------------------------------|---------------------|
| Water treatment plan reserve | \$ 57,831 |
| Capital improvement funds | 551,004 |
| Debt sinking funds | <u>1,178,415</u> |
| Total restricted cash and net assets | <u>\$ 1,787,250</u> |

13. BOND DISCOUNT AND ISSUANCE COSTS

During 2003, the District issued \$3,100,000 of General Obligation Bonds at a discount of \$21,000. This discount is being amortized over the life of the bond, which is nine years. During the current year, the District amortized \$2,333 of the bond discount.

Along with the discount in 2003, the District accrued bond issuance costs of \$21,425 and in 2004 and 2005, accrued an additional \$13,926 and \$13,305 of bond issuance costs when they issued \$1,273,300 of General Obligation Bonds, Series 2004A and \$1,200,000 of General Obligation Bonds, Series 2005A. These costs are also being amortized over the life of the bonds. During the current year, the District amortized \$6,610 of these issuance costs.

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DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Castle Valley Special Service District
Castle Dale, Utah 84513

RE: Report on Legal Compliance with
Applicable Utah State Laws and
Regulations

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities and each major fund of Castle Valley Special Service District for the year ended December 31, 2005, and have issued our report thereon dated March 10, 2006.

As part of our audit, we have audited Castle Valley Special Service District's compliance with the requirements governing types of services allowed or unallowed; eligibility; match, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance programs from the State of Utah:

Mineral Lease Funds (Department of Transportation)
Community Impact Loan (Department of Community and Economic Development)
Community Impact Grant (Department of Community and Economic Development)

The District did not receive any nonmajor grants during the year ended December 31, 2005.

Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

| | |
|-------------------------------|------------------------------|
| Public Debt | Purchasing Requirements |
| Cash Management | Truth in Taxation & Property |
| Budgetary Compliance | Tax Limitations |
| Other Compliance Requirements | Special Districts |

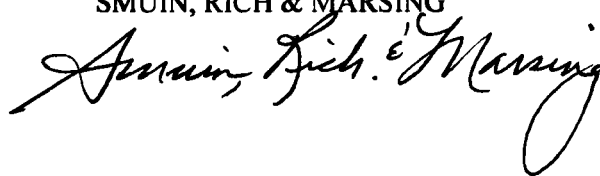
The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Castle Valley Special Service District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; match, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the firm's name.

Price, Utah

March 10, 2006

SMUIN, RICH & MARSING

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Castle Valley Special Service District
Castle Dale, Utah 84513

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Castle Valley Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated March 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

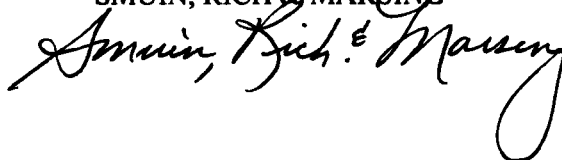
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name of the firm.

Price, Utah

March 10, 2006

**CASTLE VALLEY SPECIAL SERVICE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSE
DECEMBER 31, 2005**

Audit Finding 2005-1

Criteria – Internal control procedures have been adopted that required employees of the District to perform reconciliation's of financial statement balances. Which include cash, investments, and accounts payable along with other designated accounts.

Condition – The required checking account and PTIF investment account reconciliation's of the District had not been prepared for the entire year of 2005.

Effect – With out proper reconciliation's being preformed, financial statement data being reported may be materially incorrect. The lost or misuse of funds many not be detected. Reports to federal and state governments could be prepared incorrectly and penalties imposed because of faulty data.

Client Response – The District has made changes in personnel to correct the above stated finding.